

Property Insurance Requirements
Property Insurance Requirements

U.S. Department of Housing and Urban Development
Federal Housing Administration

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~~Public reporting burden for this collection of information is estimated to average 5 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. This is part of the basic application package for insured mortgages for construction of rental housing projects. This is a requirement under Section 207(b) of the National Housing Act (Public Law 479, 48 Stat. 1246, 12 U.S.C., 1701 et. seq.), authorizing the Secretary of HUD to insure mortgages. The information establishes property insurance requirements for a proposed multifamily project. The information is required to obtain benefits.~~
~~**Privacy Act Notice**—The United States Department of Housing and Urban Development, Federal Housing Administration, is authorized to solicit the information requested in this form by virtue of Title 12, United States Code, Section 1701 et. seq., and regulations promulgated thereunder at Title 12, Code of Federal Regulations. While no assurances of confidentiality is pledged to respondents, HUD generally discloses this data only in response to a Freedom of Information request. This agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless that collection displays a valid OMB control number.~~
U.S. Department of Housing and Urban Development
Office of Healthcare Programs

OMB Approval No. 9999-9999
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~~Public reporting burden for this collection of information is estimated to average 1 hour. This includes the time for collecting, reviewing, and reporting the data. The information is being collected to obtain the supportive documentation which must be submitted to HUD for approval, and is necessary to ensure that viable projects are developed and maintained. The Department will use this information to determine if properties meet HUD requirements with respect to development, operation and/or asset management, as well as ensuring the continued marketability of the properties. Response to this request for information is required in order to receive the benefits to be derived. This agency may not collect this information, and you are not required to complete this form unless it displays a currently valid OMB control number. No confidentiality is assured.~~

~~**Warning:** HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012, 31 U.S.C. 3729, 3802)~~

TO: _____ (Mortgagee)

(Street Address)

(City)

(Date)

(Project No.)

(Project Name)

(Project Location)

- Reference is made to the applicable Administrative Regulations of the National Housing Act under which the mortgage on the above property (a) is insured by the Assistant Secretary for Housing, Federal Housing Commissioner in accordance with a Commitment For Insurance or (b) will be insured by the Assistant Secretary for Housing, Federal Housing Commissioner in accordance with a previously issued Commitment To Insure Upon Completion.
- This notice is for the purpose of advising the Mortgagee of the Requirements of the Assistant Secretary for Housing, Federal Housing Commissioner as to the types of Property Insurance necessary to be maintained upon the subject property and of the estimate of the

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Commissioner of the 90% Estimated Replacement Cost Value of the property. The attention of the Mortgagee is directed to the fact that these Requirements, with respect to the types of Property Insurance to be maintained, are continuous Requirements, as long as any mortgage upon the property is insured by the Assistant Secretary for Housing-Federal Housing Commissioner. It is the duty of Mortgagee to require of the Mortgagor maintenance of insurance in types and amounts necessary to comply with the Requirements hereinafter stated and as stated in the insured mortgage. The attention of the Mortgagee is also directed to the pertaining Administrative Regulations wherein of the insured mortgage upon failure of the Mortgagor to do so.

(a) The 90% of Estimated Replacement Cost Value includes the cost of excavations, foundations, piers, or other supports which are below the surface of the lowest basement floor or where there is no basement, which are below the surface of the ground, underground flues, pipes, and drains. These items are generally excluded from the Property Insurance coverage when it is subject to the provisions of the Coinsurance Clause or similar clause. If the Builders Risk Insurance or the Permanent Fire and Extended Coverage Insurance does not insure these items, then an amount acceptable to the Mortgagee may be deducted from the Assistant Secretary for Housing-Federal Housing Commissioner's estimate of the 90% of Estimated Replacement Cost for the purpose of estimating the amount of Builders Risk Insurance or the amount of Permanent Insurance.

3. INSURANCE DURING CONSTRUCTION.

The Requirements for this type of insurance are inapplicable when a Commitment to Insure upon Completion is issued.

(a) Concurrently with or prior to the issuance of mortgage insurance by the Assistant Secretary for Housing-Federal Housing Commissioner of any advance of mortgage proceeds for construction of the property, the Mortgagee shall have in its possession or control and in full force and effect, the standard form of Builders Risk Insurance policy or policies. It shall be written upon the standard Builders Risk Completed Value form, for Fire, Extended Coverage and Vandalism and Malicious Mischief Insurance, in an aggregate amount equal to 100% of the Insurable Value of the completed building or buildings.

(b) The Builders Risk Insurance policy or policies shall show the Mortgagor as the Insured and may also show as additional insureds the general contractor and other contractors and subcontractors, as their interests may appear. Each policy shall carry the standard form of Non-Contribution Mortgage or Mortgagee Clause showing loss, if any, payable to the Mortgagee (name and address) and the Assistant Secretary for Housing-Federal Housing Commissioner, DHUD, Washington, D.C., his successors or assigns, as interest may appear. The original of such policy or policies shall be retained in the possession or control of the Mortgagee and shall be maintained in full force and effect.

(c) Owner, the Owner shall procure and maintain Vehicle Liability Insurance. Such insurance shall provide for limits of liability of not less than \$300,000 for one person and \$500,000 for more than one person to protect the owner from claims for bodily injury and/or death, and not less than \$100,000 against claims for damage to property of others. Public Liability Insurance on a Commercial General Liability form with limits of not less than \$500,000 per occurrence to protect the owner during the construction phase from claims involving bodily injury and/or death and damage to the property of others. Such Commercial General Liability insurance shall be endorse to include owner's and contractor's protective coverage.

(d) Upon cancellation of the Builders Risk Insurance or any portion thereof, Permanent Insurance shall be affected as hereinafter stipulated.

4. PERMANENT INSURANCE

This section covers the requirements that policies for property insurance must satisfy.

A. Property Damage ("Special Form")

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| What's Required | "Special Form" (formerly referred to as "All Risk") Property Insurance |
| When Does it Apply? | All property types |
| Amount of Coverage | <ul style="list-style-type: none"> 90% of Estimated Replacement Cost. Agreed amount no co-insurance. |
| Maximum Deductible | <ul style="list-style-type: none"> \$25,000 per occurrence for a portfolio or single asset Mortgage Loan with a Property having less than or equal to \$100 million in total replacement values, as listed in the policy. |

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| | <ul style="list-style-type: none"> • \$100,000 per occurrence for portfolios or single asset Mortgage Loans with a Property having greater than or equal to \$100 million in total replacement values, as listed in the policy. |
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The following exclusions from “Special Form” insurance policies are acceptable:

1. War or Military Action
2. Nuclear Hazard
3. Volcanic eruptions
4. Fraudulent or dishonest acts committed by the insured
5. Dispersal, release or escape of contaminants, or pollution (biological and chemical agents) Windstorm, flood, earth movement and terrorism exclusions also are acceptable, provided a separate policy or coverage is obtained for these exclusions, as specified elsewhere in this Section

B. Ordinance and Law Coverage

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| What’s Required | Ordinance and Law Coverage |
| When Does it Apply? | Properties that contain any type of non-conformance under current building, zoning, or land use laws or ordinances. |
| Amount of Coverage | <ul style="list-style-type: none"> • <u>Coverage A</u> - Loss of Undamaged Portion of the Property: Equal to 100% of the full replacement cost of the Property less the damage threshold of the local building ordinance. If threshold is not available, 100% of the full replacement cost of the Property. • <u>Coverage B</u> - Demolition Cost: Minimum 10% of the full replacement cost of the Property. • <u>Coverage C</u> - Increased Cost of Construction: Minimum 10% of the full replacement cost of the Property. |

C. Boiler and Machinery/Equipment Breakdown Insurance

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| What’s Required | Coverage from loss arising from the operation of pressure, mechanical, and electrical equipment. |
| When Does it Apply? | Properties where any centralized HVAC, boiler, water heater or other type of pressure-fired vessel is in operation and regulated by the state where the Property is located. If boiler or boilers are located at the subject property are other than steam boilers, specific Boiler Explosion Insurance generally is not required. If there is a steam boiler or boilers in operation in connection with the subject property, specific Boiler Explosion Insurance is required. |
| Amount of Coverage | At least 90% replacement cost of the building(s) that house the equipment. Agreed amount no co-insurance |
| Maximum Deductible | No more than the deductibles on the property insurance policy. |

1. HUD requires that each Property and Mortgagor be covered by Liability Insurance for the life of the Mortgage Loan. This section covers the guidelines and requirements that policies for Liability Insurance must meet.
2. In the case of new construction, substantial rehabilitation, or additions, both the General Contractor and the Mortgagor must be covered by commercial general liability insurance. Such commercial general liability insurance shall be endorsed to include Owner’s and Contractor’s protective coverage.

D. Commercial General Liability Insurance

1. Commercial General Liability Insurance for bodily injury, property damage and personal injury.
2. Applies to all property types
3. Minimum Coverage
 - a. Primary coverage amount: \$1 million per occurrence/\$3 million minimum general aggregate limit, plus
 - b. Minimum Umbrella Liability Insurance (above the primary):

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- 10 or more facilities Additional \$5,000,000

- c. The minimum required coverage limit may be satisfied by adding any combination of primary and umbrella/excess per occurrence and aggregate limits so that the sum of both equals the sum of the limits required in a. plus b. above
- d. Use of Blanket Policies must comply with the requirements of this Chapter.

4. Commercial General Liability Insurance Maximum Deductibles:

- a. \$25,000 deductible/SIR (self-insured retention) for portfolio and/or single asset Mortgage Loans with Properties less than or equal to \$100 million in total replacement values, as listed in the Property policy.
- b. \$100,000 deductible/SIR for portfolios and/or single asset Mortgage Loans with Properties greater than or equal to \$100 million in total replacement values, as listed in the Property policy

E. Professional Liability Insurance – refer to Appendix 16.1

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| What's Required | Professional Liability Insurance |
| When Does it Apply? | All properties |
| Amount of Coverage | Minimum of \$1 million per occurrence / \$3 million aggregate. Determination of coverage must comply with Appendix 17.A. |
| Maximum Deductible | refer to appendix 16.1 |

F. Commercial Auto Liability Insurance

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| What's Required | Commercial Auto Liability Insurance that covers owned, non-owned, hired and leased vehicles (whichever shall apply), including personal injury protection and uninsured motorist liability. |
| When Does it Apply? | If the Property uses cars, vans or trucks for business purposes, Commercial Auto Liability Insurance must cover those vehicles. This also applies during the construction period. |
| Amount of Coverage | \$1 million per occurrence |

The following sections specify additional insurance coverage required by HUD for each Property.

A. Business Income/Rent Loss Coverage

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| What's Required | Business Income / Rent Loss coverage is required for all property insurance coverage including windstorm, flood, earthquake, and terrorism even if written on a stand-alone basis. See Windstorm Coverage, for additional information regarding the windstorm. |
| When Does it Apply? | All property types |
| Amount of Coverage | <ul style="list-style-type: none"> • Actual loss sustained or minimum 12 months' gross revenue. • 180-Day Extended Period of Indemnity. Provides an additional 180 days of business income or rent loss coverage if, after the damaged Property is ready for occupancy and is occupied, the occupancy level of the Property is lower than it was immediately before the Property was damaged |
| Maximum Deductible | Two weeks per occurrence |

B. Earthquake

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| What's Required | Earthquake Insurance |
| When Does it Apply? | <p>A property located in Seismic Zones 3 or 4 that meet the Property risk factors listed below:</p> <ul style="list-style-type: none"> • Properties located in Seismic Zones 3 or 4: <ul style="list-style-type: none"> ○ reinforced masonry buildings and pre-cast concrete or tilt-up buildings constructed prior to 1994; |

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| | <ul style="list-style-type: none"> ○ reinforced concrete frame or reinforced concrete shear wall buildings constructed prior to 1976; ○ wood frame buildings on unbraced cripple walls (sometimes referred to as crawl space walls – short wood perimeter walls used to elevate a Property above-ground to allow access to the substructure and utility lines or to level a building constructed on a slope); ○ wood frame buildings without anchorage to foundation; or, ○ any building with a weak (soft) story at the first level above grade. ● Properties located in Seismic Zone 4 only: <ul style="list-style-type: none"> ○ buildings on sites with significant liquefaction potential (e.g., low-lying areas along bodies of water such as rivers, lakes, bays, the coast or waterways) unless provided with deep foundations (piles or piers); or, ○ buildings with tuck-under parking constructed prior to 1988. |
| Amount of Coverage | <ul style="list-style-type: none"> ● 100% of the full replacement cost of the Property Improvements. ● Business income/rent loss coverage for a minimum of 12 months plus a 180- day extended period of indemnity (as otherwise specified in this Chapter). Business Income / Rent Loss coverage is required even if written on a stand-alone basis. |
| Maximum Deductible | 5% of the total insured value as listed on the policy, maximum \$250,000 per location |

C. Builder's Risk Insurance

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| What's Required | Builder's Risk Insurance (comprehensive form) The Builders Risk Insurance policy or policies shall show the Mortgagor as the Insured and may also show as additional insured the general contractor and other contractors and subcontractors, as their interests may appear |
| When Does it Apply? | All property types during construction or substantial rehabilitation. |
| Amount of Coverage | 100% of the completed value, on a non-reporting basis. |
| Maximum Deductible | \$25,000 |

D. Workers' Compensation

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| What's Required | Statutory Workers' Compensation and Employer's Liability Insurance |
| When Does it Apply? | Where employees of the Mortgagor are required to be covered by workers' compensation laws of the state where the Property is located. |
| Amount of Coverage | <ul style="list-style-type: none"> ● Employer's Liability with a limit of \$1 million; and, ● Statutory Limits for compensation |

E. Fidelity Bond/Crime Insurance

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| What's Required | <p>Fidelity Bond, Employee Dishonesty coverage or Crime Insurance</p> <p>This insurance reimburses the insured for losses resulting from dishonest acts of any employee, officer or board member.</p> <p>The policy must cover</p> <ul style="list-style-type: none"> ● All principals of the management entity, and ● All persons who participate directly or indirectly in the management and maintenance of the project and its assets, accounts, and records. <p>Coverage may be through one or more bonds, and one bond may cover more than one project, including projects whose mortgages are not insured or held by HUD. The agent's principals and supervisory and front-line staff may be covered under the same bond.</p> |
| When Does it Apply? | All properties. |

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| Amount of Coverage | <ul style="list-style-type: none"> • 2 months of Gross Potential Income of project • If coverage is for more than one project, the minimum is computed using the project with the highest gross potential income. |
| Maximum Deductible | \$25,000 |

F. Sinkhole/Mine Subsidence Insurance

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| What's Required | Sinkhole/Mine Subsidence Insurance |
| When Does it Apply? | All properties in areas prone to these geological phenomena. |
| Amount of Coverage | 100% replacement cost. |
| Maximum Deductible | \$25,000 |

G. Windstorm Coverage

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| What's Required | If the "Special Form" property damage insurance excludes any type of wind-related event, a separate windstorm insurance policy must be obtained. Coverage obtained through state insurance plans or other state-managed windstorm and beach erosion insurance pools is acceptable if that is the only windstorm coverage available in an insurance market. |
| When Does it Apply? | All properties |
| Amount of Coverage | 100% replacement cost or, if replacement cost coverage is not available, the then actual cash value of the Property if it equals or exceeds the current unpaid Mortgage Loan balance. Business income: Actual loss sustained or minimum 12 months gross revenue. Business Income / Rent Loss coverage is required even if written on a stand-alone basis |
| Maximum Deductible | 2% of the total insured value, as listed on the policy, maximum \$250,000 per location. |

If windstorm coverage is only available through a state insurance program, that excludes business interruption/rent loss coverage, the Lender must consult with its HUD Representative before proceeding with the transaction.

6. FLOOD INSURANCE. (Required whenever the property is located in an area of special flood hazards in which flood insurance is available under the National Flood Insurance Act.)

REQUIRED NOT REQUIRED

Flood Insurance

1. The Lender must determine, for every Mortgage Loan, whether any of the Improvements are located in a Special Flood Hazard Area (SFHA). SFHAs are areas designated by the Federal Emergency Management Agency (FEMA) as Zone A or V.

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| What's Required | Flood |
| When Does it Apply? | Flood insurance is required for Property Improvements located in SFHA, Zone A or V. If the improved portions of the Property are not located in an SFHA, then flood insurance is not required, even if the unimproved portions of the Property are in an SFHA. |
| Amount of Coverage | 100% of replacement cost of Improvements located in an SFHA. Business income/rent loss coverage for a minimum of 12 months plus a 180-day extended period of indemnity (as otherwise specified in this Chapter) for Improvements located in an SFHA. Business Income / Rent Loss coverage is required even if written on a stand-alone basis. |

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| | if 100% of the full replacement cost is unavailable or the premium cost is commercially unreasonable, then the maximum amount of insurance available under the National Flood Insurance Program (NFIP) must be obtained. An excess flood or Difference In Conditions (DIC) policy must provide for the difference, if any, between the maximum limit provided by NFIP policies and the full replacement cost and the required Business Income/Rent Loss coverage as noted above. |
| Maximum Deductible | \$25,000 |

- a. Flood insurance must be in the form of the standard policy issued by members of the NFIP. Other policies that meet the NFIP's requirements, such as those issued by licensed property and casualty insurance companies that are authorized to participate in NFIP's "Write Your Own" program, are acceptable. Equivalent flood insurance policies written by qualified carriers are also acceptable.
- b. Conditions may change over time and zones may be remapped, resulting in the reclassification of non-flood areas. After a Mortgage Loan is sold to HUD, the Lender must ensure that flood insurance is obtained if any Property Improvements are later determined to lie within a remapped SFHA.
- c. If conditions warrant, HUD or the Lender may require flood insurance for Property Improvements located outside of an SFHA but within an area designated by FEMA as Zone X, such as a Property that is in an area subject to flooding due to storm water or within close proximity to an SFHA boundary.

2. **Flood Insurance Determination:** For every Mortgage Loan, the Lender must determine whether any of the Property Improvements are located in an SFHA and must document each determination on a Standard Flood Hazard Determination form issued by FEMA (FEMA Form 81-93). The Lender must obtain flood-zone determinations from a qualified third-party flood-zone determination firm. The Lender must place a completed copy of the Standard Flood Hazard Determination form in the Lender Servicing File for the Mortgage Loan. HUD expects the Lender to exercise care and sound judgment when it selects and contracts with a third-party flood-zone determination firm.

Because conditions may change over time, the status of a zone may change. As a result, the Lender must obtain from its flood zone determination firm "life-of-loan" monitoring and coverage, which means that the monitoring company will notify the Lender if and when flood insurance is required for a monitored Property. The Lender must ensure that the monitoring company it selects agrees to continue monitoring for all of the covered Properties in the event that the Lender sells or otherwise transfers its servicing rights to another Mortgage Loan servicer.

7. **INSURANCE CARRIERS.**

The acceptability of insurance carriers, types of coverage and the forms, conditions, amounts and scope of insurance policies are responsibilities of the Mortgagee. The Assistant Secretary for Housing-Federal Housing Commissioner does not require that any duplicate policies, certificates or memoranda of insurance or other evidence of the foregoing insurance overages be submitted to him or to any of his field offices or authorized agents.

8. **LOSS SETTLEMENT DRAFTS AND CHECKS.**

(a) Loss settlement drafts and checks in settlement of losses sustained under any of the aforementioned types of insurance overages shall always include the Mortgagee and the Assistant Secretary for Housing-Federal Housing Commissioner as payees.

(b) Loss settlement drafts and checks should be forwarded to the Assistant Secretary for Housing-Federal Housing Commissioner DHUD, Field Office Director having jurisdiction over the area in which the property sustaining the loss is situated, and he is responsible for the endorsement and release of such instruments on behalf of the Assistant Secretary for Housing-Federal Housing Commissioner

ASSISTANT SECRETARY FOR HOUSING-FEDERAL
HOUSING COMMISSIONER

By _____
(Authorized Agent)

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